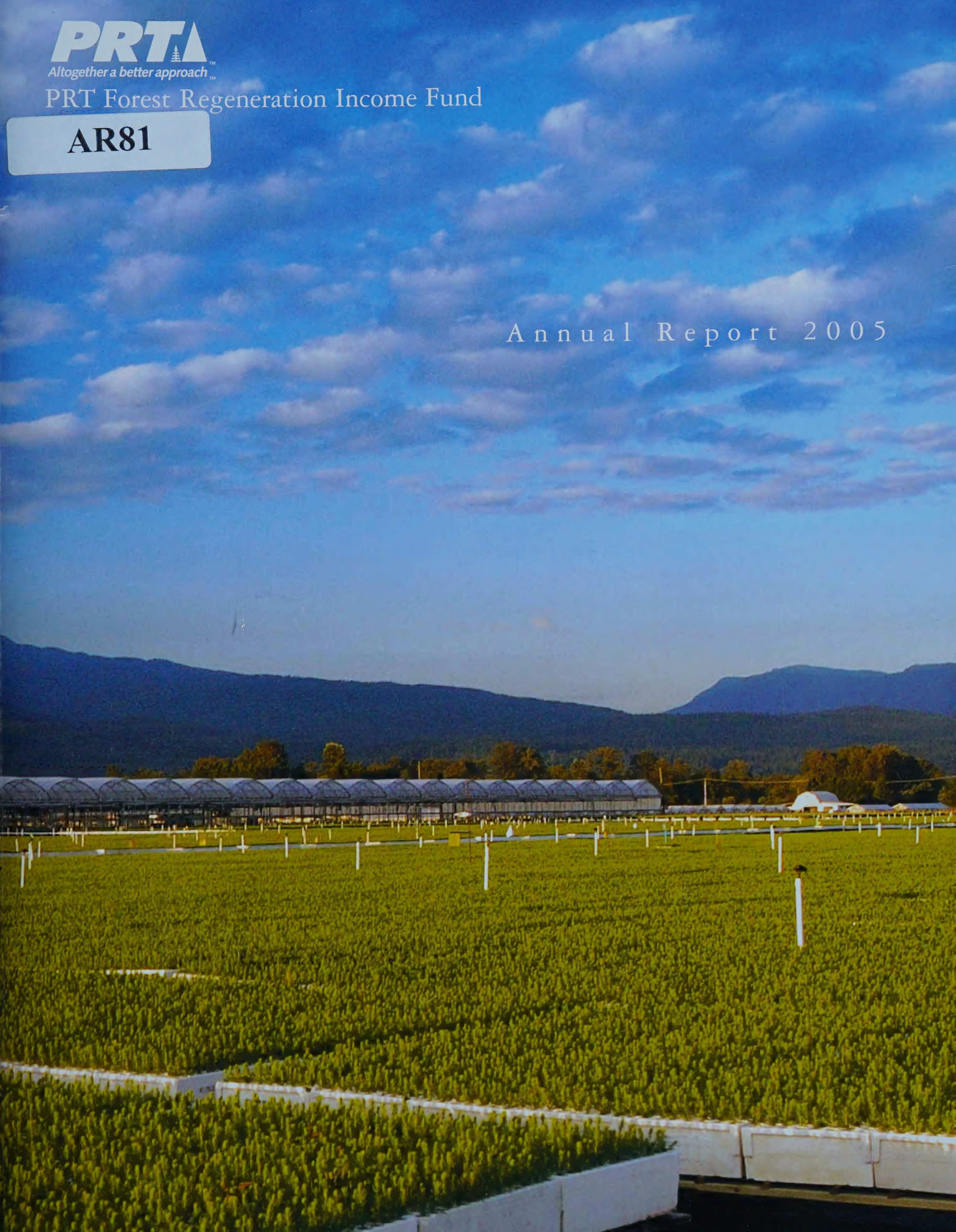
PRT
Altogether a better approach™

PRT Forest Regeneration Income Fund

Annual Report 2005



PRT
Altogether a better approach™

PRT Forest Regeneration Income Fund

Our Vision

To be the leader in seedling production.

Our Mission

To provide seedling supply services best suited to the needs of each customer.

Our Principles

We are guided by the following principles in fulfilling our mission and in pursuing our vision.

- We work closely with our customers to understand their unique needs so we can strive to provide ideal seedling supply solutions.
- We provide our employees with the opportunity to achieve success in a safe work environment.
- We follow proven and reproducible practices to ensure reliability of our core seedling services.
- We seek continuous improvement by working together, by listening to others and by encouraging innovation.
- We will not let success make us complacent or allow failure to prevent us from continuously trying to improve.

Following these principles, we will make the best use of our human, physical and financial resources, we will provide value to our customers and our shareholders, and we will make progress toward our vision.

Company Profile

PRT was formed in 1988 to enable employees of several former British Columbia government forest nurseries to invest in the purchase of the nurseries. Since then, we have become Canada's largest forest nursery company and the largest producer of containerized forest seedlings in North America. Operating 16 nurseries in Canada and the United States, we have annual production capacity for more than 220 million forest seedlings.

Our business is founded on the three cornerstones of customer service: reliability, service and value. This foundation sustains an active growth strategy of managed acquisition and expansion.

Key to our success is our strategy of locating our facilities near our customers. This provides our customers with the benefits of local service combined with the resources of a network of nurseries with varied expertise.

PRT has established a leadership position by responding astutely to forest industry trends. We provide our customers with competitively priced products and integrated services that help them efficiently manage their seedling requirements.

In 2005, PRT delivered increased revenue, net earnings and distributable cash flow and achieved significant progress on its strategic objectives.

2005 Performance

(in millions of dollars, except per Unit amounts)

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Revenue	$ 42.1	$ 34.8	$ 35.0
Operating earnings [1,3]	9.7	7.5	6.8
Net earnings	6.0	4.9	4.8
Per Trust Unit	0.79	0.67	0.67
Distributable cash [3]	7.5	6.1	6.2
Per Trust Unit [3]	0.98	0.82	0.85
Cash distributions per Trust Unit [2]	0.91	0.88	0.88
Cash generated from operations (before net change in non-cash working capital items)	9.6	6.9	7.3
Net additions to capital assets, including acquisitions	20.3	8.9	3.0
Total assets	104.7	77.8	68.1
Unitholders' equity	77.3	59.1	57.6
Per Trust Unit	8.06	7.79	7.93
Price range per unit on the Toronto Stock Exchange:			
High	11.57	9.90	10.30
Low	9.07	8.73	8.60
Closing price at December 31	10.10	9.43	9.00

1 Defined as earnings before interest, depreciation and amortization, income taxes, gains or losses on asset sales and other non-operating income or loss items.

2 Including dividend declared in subsequent fiscal year on account of current year's operations.

3 Operating earnings and distributable cash are terms which do not have standardized meaning under Canadian generally accepted accounting principles, and may not be comparable to similar measures provided by other reporting entities.

2005 Highlights

- The fund achieved record revenue of $42.1 million.
- Distributable cash flow per weighted average unit outstanding increased by $0.16 per unit or 20%.
- Seedling volumes increased by 22.6% to 168 million.
- We acquired two Canadian nursery sites to further improve our competitive position and expand our outdoor growing capacity.
- Our trust unit offering raised $18.9 million in new capital, strengthening our balance sheet.
- Energy consumption was further reduced at our nursery sites.
- We continued to invest in productivity and in product and service improvements.

Report to Unitholders

Growing in every respect

Over the past two years, PRT undertook a significant reorganization and cost-cutting program while maintaining its growth strategy. We are pleased to report that we have achieved real benefits from our efforts.

PRT's financial performance was much improved in 2005. We realized many important objectives, benefited from improving cash flow and established a stronger competitive position through two nursery site acquisitions. We also attracted substantial new capital that strengthened our balance sheet, enabling us to continue to invest in product and service improvements and new acquisitions.

Conditions continue to improve in our major forest seedling markets, although some remain under pressure from weakness in the forest products industry. But our improved financial performance, stronger balance sheet and more diversified operations leave us well prepared to deal with opportunities and challenges in the marketplace.

Our results tell us that our growth strategy is working and we look for continued improvements in 2006.

Financial performance improves

In 2005, favourable forest seedling markets and our increased market share contributed to a 21.1% increase in revenues compared with 2004. Profit margins increased from 21.5% to 23.0% as the forest seedling share of our revenue increased, while revenue decreased in lower margin segments, primarily tree planting and related silviculture services.

Our cash flow increased in 2005, despite operating cost pressures and the costs associated with the addition of two newly acquired nurseries. Crop growing conditions were challenging in some regions during the year, although

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GROWING BETTER TEAMS: At PRT, we conduct an annual Top Dog competition to help our nursery teams understand how to create future value. Our Top Dog trophy is awarded to the nursery that performs best on a balanced set of important business measures:

- safety performance
- production reliability
- human resources development
- financial performance
- local community support
- environmental performance

The Top Dog nursery holds the trophy for one year. Its staff members each receive a commemorative t-shirt, and $2,000 is presented to the staff to donate to local charities.

Our latest Top Dog award went to PRT Prince Albert. This nursery was recognized for its achievements in 2004, including no lost-time injuries, six consecutive years of high reliability and the sponsorship of Bring Back the Magic, a campaign to renovate the Prince Albert arena, among many other donations to its community. Staff members chose to donate their $2,000 award to the Prince Albert SPCA, the Prince Albert Children's Haven, the Dan Davies Memorial Fund and the Two Miles for Mary seniors' transportation service.

having facilities in a wide range of climates enables us to minimize this risk. Consequently, distributable cash flow during 2005 increased by approximately 22.5%.

	2005+	2004+	% Change
Revenue	$ 42,097	$ 34,770	21.1
Net earnings	$ 6,008	$ 4,921	22.1
Distributable cash flow	$ 7,456	$ 6,085	22.5

+ All figures in thousands

We received good capital market support during 2005 for our two nursery acquisitions. Both were funded initially from our credit facility and then fully and finally from a $20-million offering of new trust units. The financing and our improved financial performance have strengthened our balance sheet, leaving us well positioned to continue to invest in growth and productivity initiatives.

Forest seedling markets expand

Planting volumes in the forest seedling sector have remained stable despite the widespread challenges faced by the Canadian forest products industry over the past several years. In 2005, PRT's contracted seedling volume increased approximately 23% over 2004 levels as reforestation kept pace with high levels of harvesting and natural disaster remediation activities.

The industry continues to harvest trees at high levels sustained by a healthy North American housing market. In British Columbia, our largest market segment, harvesting is being further accelerated by programs aimed at recovering wood damaged by the mountain pine beetle epidemic. In addition, reforestation activities are taking place following severe wildfires in British Columbia and Alberta in recent years.

Ordinarily, these favourable conditions would lead to higher seedling prices. In 2005, however, ongoing weakness in the forest products industry created pressure for competitively priced seedlings. Even though some operating cost components, particularly energy, rose faster than seedling prices, we improved our profit margins through increased volumes and cost reduction initiatives.

GROWING TO MEET CUSTOMERS NEEDS: We acquired our Coldstream nursery in June 2005 from Barry and Diane Kasdorf. The Kasdorfs established the nursery site in 1990 near Vernon, British Columbia, at the northern end of the Okanagan Valley.

The Okanagan Valley lies in the rain shadow of the Cascade Range and has a dry, continental climate. The valley bottom has a predominantly semi-arid steppe climate, and a chain of large lakes moderates the winter and summer climate. It's an ideal environment for growing forest seedlings in energy-efficient outdoor compounds.

The Kasdorfs started out producing fewer than a million outdoor-grown spruce and pine seedlings annually. Over the years, they increased seedling production to its current annual capacity of approximately five million seedlings.

The Coldstream nursery gives PRT the additional low-energy growing capacity critical to keeping the company competitive.

Growth strategy pays off

Our long-term strategy remains the steady pursuit of growth. Our goal is to build market share by offering superior value and customer service and to carefully acquire and integrate new nursery sites.

A key driver of our strategy is the succession planning faced by owners of numerous private nurseries operating in a fragmented industry. For those owners seeking exit strategies from their businesses, PRT is increasingly recognized as a qualified buyer of private nurseries.

The patient execution of our growth strategy led to two attractive acquisitions in 2005: Pelton Reforestation Ltd. and Coldstream Nursery Ltd. By purchasing these private B.C. nurseries we expanded our production capacity by 53 million seedlings (33%) and increased our annual revenue potential by approximately $12 million (35%).

Both acquisitions provide excellent strategic value. Pelton, which was previously our largest competitor, enhances our expertise in mini-plug seedling production, a more efficient seedling production system. Coldstream adds additional open-compound production, which helps us better control rising energy costs.

The Pahrump Valley, Nevada, nursery, which we added to operations in 2003, further demonstrates the value of our growth strategy. This facility tripled its growing capacity last year. The increased demand further confirms industry acceptance of the high-quality seedlings that can be grown cost-effectively in this unique desert nursery.

Growth remains a priority

Our priorities for 2006 remain much the same as in 2005. We seek

- to meet the needs of our customers
- to improve our productivity and streamline our administration
- to maintain our long-term growth

To ensure that we continue to offer superior value and service to our customers, in 2005 we formed a customer advisory board comprising a cross-section of our customers. This proactive approach will increase our understanding of our customers' needs and enable our customers to contribute their ideas to our strategic planning.

Our efforts to improve productivity and to streamline administration slowed somewhat in 2005 while we integrated two acquisitions. We nonetheless face increasing administration costs for regulatory compliance. As much as we welcome the benefits that increased disclosure and transparency bring, for smaller companies, such as PRT, the benefits come at a relatively high cost. Nevertheless, we continue to aggressively seek ways to ease our administration costs.

We also will continue our focus on long-term growth. However, recent acquisitions call in the interim for us to slow our pace of growth to ensure that we fully integrate and streamline those acquisitions with our operations overall. We experienced some minor and expected growing pains from our acquisitions. But we are getting the right people in the right places to speed our incorporation of these valuable assets. In addition, we are making certain that our enterprise-wide risk management strategies are implemented throughout our growing organization.

Looking ahead to 2006, we expect seedling demand to remain firm. We also believe that acquisitions made in 2005 will contribute to our competitiveness and profitability.

We plan to continue to invest heavily in our business, particularly in information technology that not only improves our reliability and efficiency, but also reduces administration for our customers. We will also invest in the betterment of our workforce through leadership and human resources development activities.

In closing, we thank our people for their commitment, their passion and their effort. We faced substantial new challenges over the past several years, and their solutions and hard work made our progress in 2005 possible. We also thank our customers and investors for their confidence, trust, and loyalty as we continue to improve our business.

On behalf of the trustees and management,

Colin A. C. Dobell
Trustee and Chairman

John Kitchen
President & CEO, Pacific Regeneration Technologies Inc.

Growing a more efficient company

PRT is Canada's largest forest nursery company and North America's largest producer of containerized forest seedlings. Our purchase of two forest nursery sites during 2005 further solidifies our position as a preferred supplier to major forest products companies. PRT has a diverse network of nurseries located in a wide range of climates to enable it to deal effectively with fluctuations in growing conditions and seedling demand. We are therefore better able to meet the needs of our customers and to continue our strategy of growth through additional acquisitions.

Seedling volume increased in 2005 to 168 million seedlings compared with 137 million in 2004. The growth came from higher volumes in existing markets and from nursery acquisitions. Seedling volumes exclude our newly acquired Pelton nursery, which was acquired in the fourth quarter of 2005. Importantly, we also increased outdoor grown seedlings from 33% to 36% of total production, which helped us reduce our exposure to high natural gas prices.

Annual seedling volume *(millions)*

2005	2004	2003	2002	2001
168	137	138	129	136

Forest seedling markets remain strong

Regeneration is necessary after timber harvesting, wildfires and disease infestations, and usually takes place one to three years after these events. Demand in Canada for seedlings has remained stable, at 600 to 680 million, for the past 10 years. Recently, however, seedling demand has grown as the forest products industry continues to harvest trees at high levels sustained by a healthy North American housing market. Two unusual natural events have also added to demand:

First, Alberta and British Columbia experienced a substantial increase in wildfire activity during 2002, 2003 and 2004. In B.C., 10 times the average number of hectares burned in 2003 and 2004 according to government statistics. These areas are now being replanted. Second, a deadly mountain pine beetle epidemic is sweeping through B.C.'s central interior. The beetle infestation, believed to be the largest in recorded history, is affecting more than 7 million hectares and killing more than 283 million cubic metres of timber. Scientists project that the epidemic is likely to last another 10 years, infecting more

PRT OPERATIONS

1. **PRT Summit**, Telkwa, BC
2. **PRT Red Rock**, Prince George, BC
3. **PRT Campbell River**, Campbell River, BC
4. **PRT Corporate Office**, Victoria, BC
5. **PRT Executive Office**, Vancouver, BC
6. **PRT Hybrid**, Pitt Meadows, BC
7. **PRT Pelton**, Maple Ridge, BC
8. **PRT Armstrong**, Armstrong, BC
9. **PRT Vernon**, Vernon, BC
10. **PRT Coldstream**, Coldstream, BC
11. **PRT Summerland**, Summerland, BC
12. **PRT Harrop**, Nelson, BC
13. **PRT Oregon**, Hubbard, OR
14. **Cold Storage**, Medford, OR
15. **PRT Nevada**, Pahrump, NV
16. **PRT Beaverlodge**, Beaverlodge, AB
17. **Cold Storage**, Big River, SK
18. **PRT Prince Albert**, Prince Albert, SK
19. **PRT Dryden**, Dryden, ON
20. **Cold Storage**, Manitouwadge, ON
21. **PRT Kirkland Lake**, Kirkland Lake, ON

Operations Report *(continued)*

than 80% of the merchantable lodgepole pine in B.C.'s interior. The beetle is also beginning to spread into Alberta.

In 2005, the B.C. government announced a $100-million, three-year program aimed at areas damaged by the mountain pine beetle and wildfires. The federal government will contribute an additional $100 million. The program calls for aggressive reforestation activities and higher annual cut levels to encourage the harvesting of beetle-killed trees, which must be processed within a few years of their death to preserve their economic value.

Growth strategy strengthens competitive position

During the past three years, PRT carried out its growth strategy by acquiring four nurseries and by starting a greenfield operation in Pahrump, Nevada. We also consolidated several nurseries during this period to improve efficiencies and lower costs. Today, PRT operates 14 nurseries in Canada and 2 in the United States.

During 2005, we again increased our market share by acquiring two private nursery operations located in southwestern British Columbia. Both are located in comparatively warmer growing areas, have well constructed and maintained assets and complement our existing nursery assets and customer base.

The largest acquisition, Pelton Reforestation, a B.C.-based company, was the second-largest forest seedling nursery company in Canada before its sale to PRT. This high-quality nursery, acquired for $18.6 million, including working capital, adds:

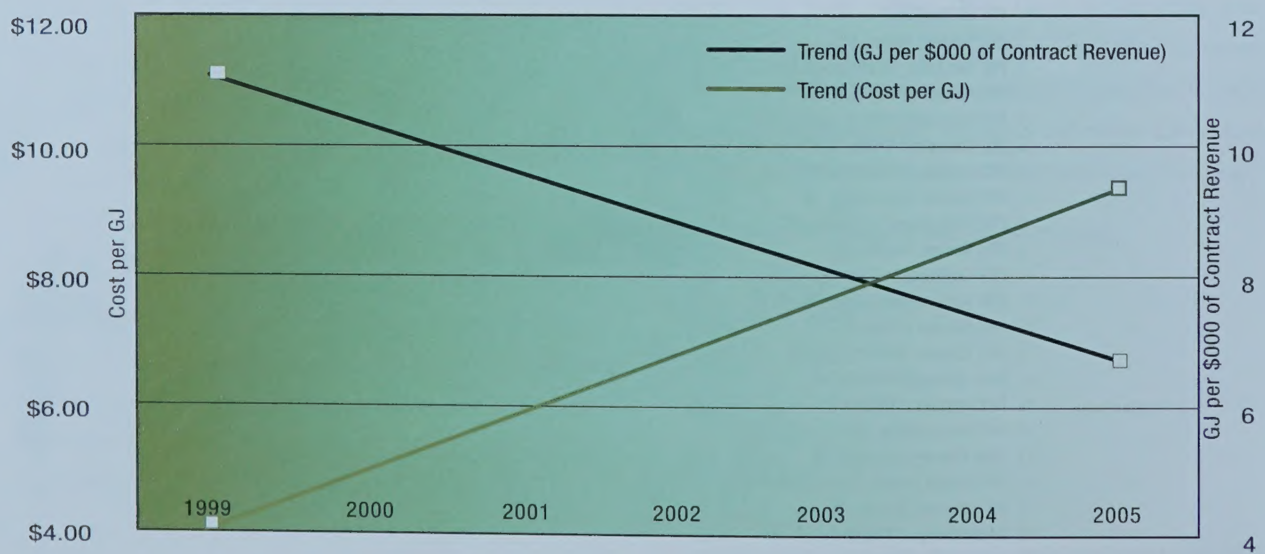
- 48 million seedlings in production
- $12 million in annual revenues
- over 120,000 square metres of greenhouse space

Importantly, the Pelton acquisition complements our expertise in mini-plug production technology, including a

GROWING WITH LESS ENERGY: In late 1999, our cost for delivered natural gas spiked from approximately $4 per gigajoule to roughly $6 (a gigajoule is a metric measure of heat energy). Natural gas costs have continued to rise, averaging more than $9 per gigajoule in 2005.

To counter this skyrocketing cost, we have taken several measures. We have gradually increased our outdoor production volumes and our production in warmer southern locations, and have developed growing strategies that boost energy efficiency and reduce wasted heat in our operations.

Our strategies are paying off. Since 1999, we have achieved a 40% reduction in the energy required to generate each dollar of revenue. And that substantially reduces the impact of rising natural gas prices on our business.



$2-million investment in specialized equipment. Mini-plugs are a high-density system used for germination and early growth, with the seedlings spread out later to their lower density for high quality finishing. This process reduces the amount of heated greenhouse space required to produce the crop, and therefore can reduce overall costs.

In June 2005, we also acquired Coldstream Nursery, for $1.6 million including working capital. This acquisition, located in B.C.'s Okanagan Valley, gives us

- more than 5 million seedlings in production
- open-compound space for a further 2.5 million seedlings
- $800,000 in annual revenues

Coldstream has an excellent reputation and improves our ability to supply seedlings for reforesting areas affected by the mountain pine beetle and by wildfires.

The majority of Pelton and Coldstream customers welcomed our purchase. We have, therefore, enjoyed high customer retention rates. That tells us that we're maintaining our reputation as a reliable grower and supplier of forest seedlings.

Safe work practices pay dividends

Our ongoing focus on ensuring safe work practices at our nursery sites continues to pay dividends. We have reduced lost-time injury claims every year since 2001. In 2005, the number of lost days was down 66% compared with five years ago.

Lost-time days due to accidents

GROWING MORE SEEDLINGS IN LESS SPACE: Our larger forest seedlings are typically germinated in styrofoam blocks that have 45 to 77 seedling cavities each. It has been common practice to sow 1.5 to 2 seeds per cavity to ensure maximum container and greenhouse utilization. When two seedlings germinate in a cavity, however, one must be discarded, which is an expensive and needless waste of a rare or expensive seed.

PRT Pelton, a nursery we acquired in 2005, has developed an innovative, two-stage production process to avoid the waste. That process improves greenhouse efficiency and reduces the cost of seeds for our customers.

Seeds are sown at a rate of one per cavity in a specially designed 364-cavity styrofoam block. The seeds require intense light and heat during their 8-to-10-week germination period in January and February, a time when natural gas heating costs are usually at seasonal highs. But compared with standard containers, the high-density containers occupy one-fifth of the greenhouse space. So heating costs are reduced, and if a seed fails to germinate the lost space is much less significant. Once established, the seedlings are transplanted into standard sized blocks using highly efficient, mechanized equipment. Here, they spend the rest of the growing cycle before being packaged and shipped to customers for final planting.

The significant claim-cost reductions we have realized enabled us to lower our workers compensation premiums in 2005, with further reductions expected for 2006.

Energy efficiency remains a priority

Reducing energy costs has become a never-ending job at PRT. Energy is our third-largest expense (about 6% of sales) after labour (20%) and peat, styrofoam blocks and packaging (10%).

Energy is also an expense whose price we can't influence. But we can manage our consumption of energy, which we continue to do aggressively. We have shifted seedling production to energy-efficient open-growing compounds and have reduced energy usage at our greenhouses. High energy prices nonetheless have offset our consumption savings. While frustrating, the resulting pressure on our margins gives us more impetus to continue to drastically reduce our energy usage.

Leadership development

In 2005, our internal leadership development program, Altogether Growing Better, again provided a means for employees to acquire essential management skills. The goal of this long-term program, started in 2003, is to increase knowledge sharing, to improve leadership skills and to encourage innovation throughout our organization.

We graduated 20 employees in 2003 and in 2004. A third group will graduate in spring 2006.

Our training helps us build better leaders, which helps create a better company, and enhances our ability to attract key employees in an increasingly competitive marketplace.

GROWING SEEDLINGS FASTER THANKS TO A LITTLE SERENDIPITY: The law of unintended consequences holds that almost all human actions have at least one unforeseen outcome. When employees at PRT Dryden set out to solve a nagging problem, they soon discovered that they weren't above that law. They did, however, manage to get out from under some cold water.

For many years, PRT Dryden staff members received a shot of ice-cold water down their necks every time they entered a greenhouse in winter. This was not, understandably, a pleasant experience. The fault lay with the extra poly draped over greenhouses to help insulate early forest seedling crops. The poly support system also caused ice to build up around greenhouse doors.

Our innovative Dryden crew members set out to put an end to their periodic misery. By simply modifying greenhouse arches to enclose the end of a greenhouse, the shot of ice water became a thing of the past. But there were other unexpected benefits. Ice buildup around the doors was completely eliminated, and the modification trapped more insulating dead air outside the greenhouse, reducing heat loss. This meant better and quicker germination for seedling blocks closest to the entrance door as well as some warm, dry necks.

About the Fund

The PRT Forest Regeneration Income Fund (the "Fund") is an open-ended, single-purpose Trust which owns all of the common shares and subordinated notes of Pacific Regeneration Technologies Inc. ("PRT"). Units of the Fund are traded on the Toronto Stock Exchange (PRT.UN) and are eligible for Registered Retirement Savings Plans (RRSP), Registered Retirement Income Funds (RRIF), Deferred Profit Sharing Plans (DPSP), and Registered Education Saving Plans (RESP). PRT is Canada's largest forest nursery company, producing over 220 million seedlings per year. Operations are conducted from 16 nurseries in Canada and the United States.

Management

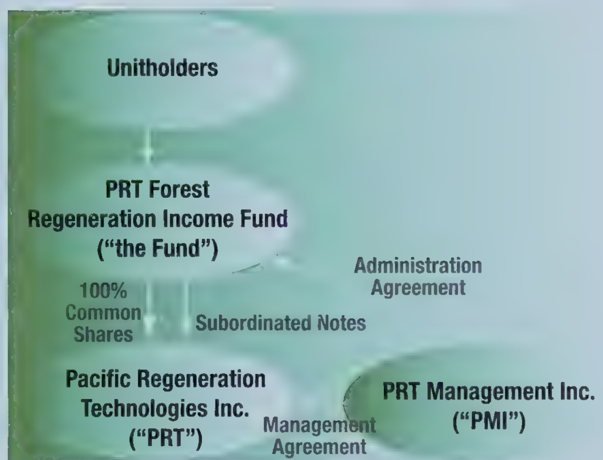
Under a Management Agreement, PRT Management Inc. ("PMI") provides to the Company management and administrative personnel and services as well as the services of the President and Chief Executive Officer, the Vice President Business Development, and the Vice President Finance and Administration and CFO. For these services, PMI is entitled to receive a fee based upon reimbursement of its internal costs without allowance for profit. In addition, as incentive to increase returns to Unitholders, PMI may receive incentive fees which are earned only when cash distributions to Unitholders exceed certain defined levels starting at $1.10 per Unit. The voting shares of PMI are owned by over 80 shareholders who are current directors, officers and employees of PMI and PRT (see illustration).

Governance

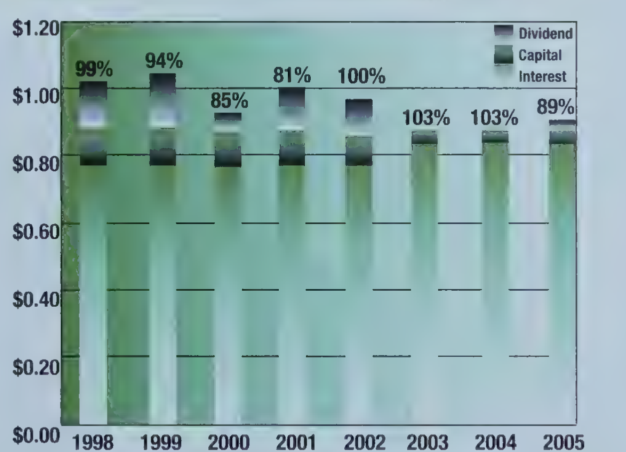
The Board of Trustees of the Fund consists of three members, all of whom are independent of, and unrelated to management and PMI. The Board of PRT consists of five members, three of whom are independent of management and appointed by the Fund Trustees. Mr. Dobell, the Chairman of the Board of Trustees, also serves as the Chairman of the Board of PRT. The trustees are appointed annually at the Annual General Meeting of Unitholders. More information on the Fund's governance practices is available in the Information Circular of the Fund, prepared in connection with its May 11, 2006 Annual General Meeting of Unitholders.

Distributions

The Fund's Policy is to distribute net interest received from PRT on a monthly basis, and dividends received on account of the prior year's operations on an annual basis. PRT's distributions are not based on a depleting asset base. In determining the amount to distribute to Unitholders, PRT's Board seeks to strike a balance between funding expansion and cash distributions to Unitholders, with a view to maintaining a strong financial position. Since inception, the Fund has distributed over $52 million to Unitholders, while maintaining and significantly expanding its productive capacity and geographic base of operations.



Distribution History and Payout Ratio %[1]



(1) Distributions to cash flow from operations less sustaining capex and reserves, and before debt repayment

Monthly base distribution of approx. $0.073/mo or $0.88/yr

Cumulative payout ratio since inception = 94%

Management's Discussion & Analysis

We are pleased to present the 2005 Annual Report for the PRT Forest Regeneration Income Fund. This section presents management's view of the operating results, cash flows, financial position and business of the Fund, and its wholly owned operating subsidiary, Pacific Regeneration Technologies Inc. ("PRT").

This discussion contains forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations for future orders, accretion estimates from acquisitions, the outlook for future energy prices, plans and opportunities for capital spending, and other statements contained in this discussion that are not historical fact. Risks and uncertainties include, but are not limited to, future commodity prices, exchange rate risks, agricultural risks, the outlook for the forest industry, the risk that acquisitions may not be integrated as planned, and other risks identified from time to time in the Fund's annual report, annual information return, prospectus, and other filing documents. These documents are available in electronic form at www.sedar.com, or by contacting the Fund directly. Readers are cautioned not to place undue reliance on forward looking statements.

Over the past few years PRT has come through a challenging operating period of higher energy prices, market disruptions caused by the softwood lumber dispute, and other factors. In 2005 however, market conditions improved somewhat as silviculture spending returned to more normal levels, due in part to the continuing high rate of cut by forest industry customers to meet lumber demand, and by increased timber cutting in BC to salvage damaged timber.

GROWING SKILLED LEADERS: Achieving our vision of being a leader in seedling production requires us to train our employees to be leaders. We do that by maintaining two "in-training" positions — grower in training and nursery manager in training — on an ongoing basis. These are hands-on positions that allow us to recruit and train staff prior to a specific need for new staff members.

Our goal is to graduate two growers and one nursery manager annually from programs located at three of our nurseries. Today, we have seven graduates holding grower or manager positions. Two of our nursery managers have progressed from the grower-in-training program. Past candidates have come from inside and outside PRT, allowing us the benefit of promoting from within, while also attracting new talent from outside the company.

The training also helps us improve our organizational success in key areas, including retention of talent, employee satisfaction, quality of products and services, and productivity and profitability.

PRT was able to increase seedling order volumes in this environment, and supplemented this added business with two nursery acquisitions during the year, which contributed to improved financial performance in 2005.

Operating Results

For the Year Ended December 31, 2005

Revenues for the year increased by $7.3 million from 2004, as a result of four main factors:

1. the acquisition of Pelton Reforestation Ltd. which occurred on October 1, 2005
2. a full year's operating revenue contribution from PRT Hybrid, which was acquired part way through 2004
3. higher contracted seedling block volumes at remaining PRT sites, and
4. the acquisition of Coldstream Nurseries Ltd which occurred June 1, 2005.

Partially offsetting these factors were lower tree planting revenues relative to 2004, which had benefited from certain non-recurring projects. For 2006 annual seedling contract volumes are expected to exceed 220 million trees, slightly ahead of the pro-forma annualized volume in 2005.

PRT's average realized seedling pricing was comparable to 2004, excluding the impact of acquisitions. For 2006 we expect slightly lower average prices, mainly due to the effect of product mix changes toward lower priced outdoor production, partly arising from the acquisitions.

Costs of production declined moderately as a percentage of revenue, to 57% from 58.7% in the prior year. This was attributable to a smaller proportion of lower margin tree planting revenues in 2005.

Greenhouse heating costs were slightly lower in 2005, due to reduced consumption which offset moderately higher average commodity prices for natural gas. As a percentage of total revenue, heating costs remained at approximately 5%. PRT had a lower percentage of its gas needs hedged in 2005, which led to increased price exposure during the fall. For 2006 the Fund has contracted forward approximately one half of its estimated annual gas needs to provide increased price stability, at prices roughly equivalent to those paid for similar supplies in 2005. With this forward buying program in place, management estimates that the Fund's sensitivity to natural gas price changes is approximately $0.015 in per unit distributable cash flow for every $1.00 per gigajoule change in the average annual cost of natural gas.

Combined Selling, General and Administration costs were $1.1 million higher overall, due to the impact of the Pelton acquisition in the fourth quarter of 2005 and a change in the timing of employee incentive compensation costs. Included in Selling, General and Administration costs is the management fee to PRT Management Inc ("PMI") for corporate management and administration. PMI is owned by current and former employees, officers and directors of PRT, and as such is a related party. Fees payable to PMI are determined based on reimbursement of PMI's actual costs without allowance for profit, and the terms of the agreement are disclosed in note 16 to the Fund's financial statements.

In recent years the Fund has been expanding its business into the US, and has established nurseries in Oregon and Nevada to service customers in both markets. US sourced growing contracts currently exceed US growing capacity, resulting in a net foreign exchange exposure. To help reduce this exposure, the company has created a natural currency hedge by financing US dollar assets with US dollar denominated debt. Accordingly, with further Canadian dollar strengthening in 2005, the Company recorded a $69,000 exchange gain, mainly on the translation of US dollar debt.

Foreign currency exchange gains and losses may be realized or unrealized. The Fund records realized foreign exchange gains and losses on the translation of cash balances and settlements of monetary items, and records unrealized gains and losses on the translation of non-cash monetary balances. Only realized foreign exchange gains and losses are included in the determination of distributable cash flow. Management estimates for 2006 that the Fund's sensitivity to the Canadian/US dollar exchange rate is less than $0.005 in per unit distributable cash flow for every CA$0.01 change in relative value of the Canadian dollar.

Interest expense for the year increased by $0.5 million primarily as a result of increased long term borrowings to finance nursery site acquisitions over the past two years. Interest costs in 2006 are expected to be somewhat lower as the fund retired a substantial portion of this debt from the proceeds of a Trust Unit offering in December, 2005. Offsetting this to some degree will be higher interest costs on operating debt necessary to finance increased working capital investments related to acquisitions.

Depreciation charges increased year over year due to the acquisition of the Pelton and Coldstream nursery sites during 2005, and the annualized impact of the Hybrid nursery acquisition last year. In 2005 the Fund also recorded amortization on intangibles purchased as part of these acquisitions.

Earnings in the prior period were impacted by site consolidation costs related to the previously announced Cochrane, Ontario nursery relocation and Aldergrove, BC nursery closure, as well as relocation of certain other greenhouse capacity to warmer growing climates. These projects were completed by the end of 2005. Costs associated with dismantling and relocating nursery assets are included as charges to income as incurred. The full cost of these projects is outlined in note 5 to the financial statements. PRT sold the Aldergrove site early in 2005 and realized a $0.5 million gain. The proceeds of this sale were applied to reduce term debt.

Pre-tax earnings in 2005 were $2.1 million higher, mainly as a result of the contribution from acquisitions and the property sale gain in 2005, as well as the impact of site consolidation charges on 2004 earnings.

The Fund recorded a $0.3 million tax recovery for 2005, which was lower than the recovery in 2004 due to higher pre-tax earnings.

Net earnings for the year increased by nearly $1.1 million or $0.12 per Unit, to $0.79 per Unit. Approximately one half of this increase was due to increased operating earnings before unusual items such as site consolidation charges and asset disposal gains. Operating contribution from the Pelton acquisition was significant since the acquisition was made in the fourth quarter, which is seasonally one of the most significant periods in the annual crop cycle.

The Fund determines distributable cash flow as cash flow from operating activities before changes in non-cash working capital items adjusted for seedling container depreciation, sustaining capital expenditures, long-term debt repayment, gains or losses on asset sales, and such other reserves as the board of PRT and the Trustees of the Fund may consider appropriate. Certain expense items which are incurred as part of earnings enhancing capital projects may be excluded from the determination of distributable cash flow if the overall project return meets the Company's internal investment hurdle rates and will be funded from external sources, such as term debt or equity financing. In 2004, site consolidation

charges related to the dismantling and relocation of nursery assets were excluded on this basis. The Fund considers distributable cash flow as defined to be a useful measure of the free cash flow from operations available for making unitholder distributions, as it is determined after providing for the maintenance and replacement of PRT's underlying asset base, as well as providing for the financing of expansionary capital spending.

The Fund calculates distributable cash as follows:

In $000's except per unit amounts	Three months ended December 31 2005	2004	Year ended December 31 2005	2004
Cash flow from operating activities before net change in non-cash working capital items	$ 3,110	$ 2,052	$ 9,612	$ 6,926
Cash flow adjustments:				
Seedling container depreciation	(406)	(251)	(1,159)	(881)
Repayment of long term debt	(204)	(121)	(485)	(212)
Site consolidation charges	—	88	—	453
Sustaining capital expenditures	(33)	(80)	(462)	(201)
Sustaining capital reserve	(50)	—	(50)	—
Distributable cash	2,417	**1,688**	7,456	**6,085**
Seasonal shortfall (excess) of cash flow to distributions declared, applied from (to) working capital	(612)	14	(670)	431
Distributions declared	$ 1,805	$ 1,702	$ 6,786	$ 6,516
Distributable cash per unit	$0.31	$0.22	$0.98	$0.82
Distributions declared per unit	$0.22	$0.22	$0.88	$0.88

Distributable cash flow for the year was nearly $1.4 million higher than in 2004, primarily as a consequence of the combined impact of acquisitions and higher seedling contract volumes in 2005, including the contribution from Pelton's seasonally high fourth quarter results. In determining distributable cash, the Fund has allowed for an additional $50,000 in a sustaining capital reserve as a contingency against potential near term needs at acquired sites. Going forward, distributable cash flow per unit will be tempered by the higher number of units outstanding in 2006.

Three Months Ended December 31, 2005 compared to Three Months Ended December 31, 2004

Revenues in the three month period increased by $4.5 million relative to the same period last year. This was mainly attributable to the contribution of the Pelton acquisition, as well as higher seedling contract volumes this year. Costs of production were higher in proportion to revenues, but declined as a percentage of revenues due to improvements in crop yields as compared to last year, and lower quarter-over-quarter service revenues which have lower margins.

Overhead costs were $1.1 million higher in the quarter, due to the inclusion of overhead costs from the Pelton acquisition, and a change in the timing of employee incentive compensation costs. Pelton overhead costs include a lease for the land and certain buildings, which is included in the table of Contractual Obligations below.

Financing costs increased by $0.3 million during the quarter as a result of borrowings to finance the two nursery acquisitions during 2005, as well as annualized interest costs on the Hybrid nursery acquisition last year.

Depreciation and amortization expenses were also higher as a result of these acquisitions.

The Fund recorded a smaller future income tax recovery in the quarter due to higher year-over-year pre-tax earnings

relative to the tax deductible distribution payments made to Fund unitholders. The tax recovery in the fourth quarter of the prior year was also impacted by the cumulative effect of tax rate changes in the quarter.

Net earnings for the quarter were largely unchanged after the change in tax provision, but declined by $0.02 per unit due to the greater number of units outstanding.

Distributable cash flow in the quarter increased by $0.7 million on improved operating earnings, partially offset by higher term debt repayments and sustaining capital expenditures and reserves. On a per unit basis, distributable cash flow was $0.31 as compared to $0.22 in the fourth quarter of 2004.

Liquidity and Cash Flow

For the Year Ended December 31, 2005

Cash flows from operating activities decreased by $1.7 million in the year, which was the result of increased working capital investments related to the Pelton acquisition in the fourth quarter. Most of this investment was financed from the operating line. In addition, in 2005 a significant portion of the progress payment invoicing for fall harvested crops occurred late in the year and early in 2006, and therefore working capital investments, including accounts receivable and unbilled revenue balances, were higher at the end of the fourth quarter.

Cash used to make Unitholder distributions was slightly higher than in 2004, at $6.7 million, due to a small increase in the average number of units outstanding over the year. Distributions declared during 2005 totalled $0.88 per unit, in line with the same figure for 2004. Of this amount, $0.84 was designated as a return on capital and $0.04 as a return of capital for Canadian income tax purposes. As distributions declared were less than the $0.98 per unit generated by operations in 2005, on February 28, 2006 the Fund declared an additional "top up" distribution of $0.03 per unit, funded from 2005 distributable cash flow.

With improved cash flow from operating activities, the Company was able to maintain adequate working capital levels despite utilizing the proceeds of the Aldergrove property sale for long term debt reduction. The Fund increased its operating line capacity to allow for working capital needs arising from revenue growth, and to finance working capital for the Pelton acquisition. PRT now has up to $13.0 million available under this facility, subject to certain margin requirements. At year-end, the full amount was available and $10.2 million had been drawn.

During the year the Fund purchased property, plant and equipment (excluding acquisitions) totalling $3.1 million, a decrease of $2.0 million from the prior year. The Fund categorizes its capital purchases as follows:

	2005	2004
Earnings enhancing capital projects	$1,639,006	$4,188,866
Sustaining capital projects	461,818	201,497
Seedling containers	1,014,824	751,625
Total	$3,115,648	$5,141,988

The Fund determines its purchase breakdown between "sustaining" and "earnings enhancing" capital expenditures on a transaction by transaction basis. The consideration is whether the asset purchased replaces productive capacity which previously existed in PRT ("sustaining"), or whether the asset expenditure is being made to enhance future earnings, either through increased revenue potential or by lowering operating costs ("earnings enhancing"). Certain rate-of-return benchmarks are applied to the evaluation of earnings enhancing capital projects, and if these are not expected to be achieved then the Fund considers the expenditure to be sustaining.

Significant earnings enhancing capital projects during the year included expansion of outdoor growing compounds, including a three-fold increase in capacity at PRT Nevada, and various investments in cost-saving production automation equipment. In the prior year, earnings enhancing capital expenditures were mainly attributable to development of US nursery facilities, particularly the purchase and refit of the Portland, Oregon nursery site, and the consolidation of Ontario nursery facilities.

Sustaining capital spending is financed from operating cash flow, while the replacement of seedling containers is financed from cash reserves created specifically for this purpose from distributable cash. Earnings enhancing capital is generally financed from term debt draws against the Company's bank facilities. Only earnings enhancing investments are financed from the Company's term debt facilities. PRT has up to $32.5 million available under these facilities, of which $24.7 million remained available at year end to finance expansionary capital spending.

	Payments Due by Period – $				
Contractual Obligations	**Total**	**Less than 1 Year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Long Term Debt	7,826,329	856,983	2,601,602	3,556,310	811,434
Operating Leases	6,937,042	786,953	1,503,552	1,470,807	3,175,730
Total Contractual Obligations	14,763,371	1,643,936	4,105,154	5,027,117	3,987,164

Early in 2005, PRT sold its former Aldergrove, BC nursery site for net proceeds of $2.5 million, which was approximately $0.5 million in excess of its carrying value. The proceeds were applied to reduce bank debt.

Over the past two years the Fund has completed the following acquisitions:

- In July 2004, PRT completed an acquisition of H.N. Hybrid Nurseries Ltd, a forest seedling nursery in the Lower Mainland region of British Columbia. This facility had a gross purchase price of $6.8 million inclusive of working capital, and was financed through a combination of equity placed with the vendor, term debt, and vendor financing. The vendor financing was refinanced with term debt in 2005.

- In June 2005, PRT purchased Coldstream Nursery Ltd., an open compound forest seedling nursery in the Okanagan region of British Columbia. The acquisition was completed for a gross purchase price of $1.6 million inclusive of working capital, and was financed through a combination of term debt, cash and vendor financing.

- In October 2005, PRT purchased Pelton Reforestation Ltd. a large forest seedling nursery located in the Lower Mainland region of British Columbia. This nursery has approximately 40% of its production in open compounds, with the balance in greenhouse production. The acquisition was completed for a gross purchase price of $19.3 million inclusive of working capital and related costs, and was financed with term debt, operating debt, and the assumption of accounts payable.

All of the above transactions were consistent with the Fund's strategies to consolidate production in the forest seedling industry, and to invest in growing facilities in warmer climate areas to reduce heating costs.

In December 2005, the Fund issued 2,000,000 new Trust Units at an issue price of $10.15 per unit. The net proceeds of the offering were $18.9 million, and these were applied to partially retire term debt taken out to finance the above acquisitions and other capital expenditures.

Three Months Ended December 31, 2005 compared to Three Months Ended December 31, 2004

Cash flow from operating activities was a $0.5 million deficit versus a deficit of $1.2 million in the prior year quarter, an improvement of $0.7 million. This was due to the higher operating earnings generated from the Pelton acquisition in the fourth quarter.

Distributions per trust unit during the fourth quarter were unchanged at $0.22.

PRT incurred $0.3 million in capital spending in the quarter, in-line with spending in 2004. This was primarily related to completion of earnings enhancing capital projects. Part of this capital spending has been temporarily financed from the Fund's operating line, which when combined with the acquisition of Pelton contributed to a $1.9 million increase in the operating loan. In 2004, capital spending combined with the change in non-cash working capital increased the operating line for that period by $3.3 million.

The Pelton acquisition was completed in the fourth quarter and consumed $17.8 million of cash resources, exclusive of cash included in the company at the closing date.

Term debt drawings during the quarter totalled $18.4 million, primarily to finance the Pelton acquisition. This debt was retired with the proceeds of the 2,000,000 Unit offering in December. In the prior year period, no new debt draws occurred, while scheduled debt payments totalled $0.1 million.

Financial Position

At December 31, 2005, working capital was $3.6 million compared to $3.8 million at the end of 2004, a decrease of $0.2 million. This was largely attributable to the use of the proceeds from the sale of the Aldergrove nursery to pay down term debt. Partially offsetting this was the working capital generated from operating cash flow in 2005, which was in excess of distributions paid during the year. The Fund's working capital position remains adequate relative to its operating needs.

Property, plant and equipment totalled $50.6 million at December 31, 2005, an increase over the prior year due to the acquisitions of Pelton and Coldstream.

In conjunction with these acquisitions, the Fund recorded intangibles of $1.3 million related to the value of customer lists, leases and non-competition agreements. In addition, goodwill of $4.2 million was recognized. The customer list intangibles are being amortized against income over 5 years, whereas leases are being amortized over 15 years, and non-competition agreements over periods from 5 to 10 years. Goodwill is subject to periodic impairment testing and will be written down if impairment is indicated.

Unitholders' Equity at December 31, 2005 was $77.3 million, an increase of $18.2 million since the end of 2004. This increase was attributable to the 2,000,000 new units issued to refinance debt, plus 9,513 units issued under the provisions of PRT's Employee Share Purchase Plan, offset by declines in equity due to distributions declared exceeding net earnings for the period. Distributable cash flow from the Fund is typically higher than reported earnings, since depreciation charges generally exceed the expenditures required for asset replacement, while asset maintenance expenditures are already included as a component of net income.

The Fund has one class of voting equity securities, of which 9,587,414 units are outstanding. Up to 560,572 units have been reserved for issuance under its Unit Option Plan, however to date no options have been granted. There are no other securities currently outstanding which may be converted into units of the Fund.

Financial Instruments

PRT uses interest rate swap contracts to fix interest rates on its variable rate long-term debt. Payments and receipts under interest rate swaps are recognized as adjustments to interest expense in a manner that matches them to interest payments under floating rate financial liabilities.

Swap terms are matched to the maturity of the underlying loan obligation. However, the Company could incur a gain or loss on the contract in the event the swap was cancelled before the scheduled maturity date. PRT periodically obtains mark-to-market valuations on its swap contracts. At December 31, 2005 the fair value of the Company's outstanding interest rate swaps approximated their carrying amount based on reference to current market interest rates.

Accounting Policy Changes

Effective January 1, 2005, the Fund adopted the CICA's Accounting Guideline AcG-15, Consolidation of Variable Interest Entities. Application of this guideline has required consolidation of PRT Management Inc. with the Fund's financial statements in 2005. Adoption of this policy had no significant impact on reported results for the current period.

Critical Accounting Estimates

PRT accounts for revenue under seedling contracts based on percentage completion contract accounting. Percentage completion is determined as the ratio of direct growing expenses incurred to total expected direct growing costs over the crop cycle. While most crops are completed by the end of the Fund's fiscal year, during interim periods management must make estimates of total expected direct growing costs for the fiscal year. In addition, total annual revenue under growing contracts is estimated based on expected annual crop yields. To increase the accuracy of these estimates, PRT has internal policies and procedures which require periodic revisions to cost forecasts and crop yield forecasts whenever a material variance is known or expected. The potential for errors in estimation is typically limited to interim periods, as final crop yields and costs are generally known by the end of the fiscal year.

Selected Annual Information

Figures are presented in $000's except number of Units and per Trust Unit amounts

	1998	1999	2000	2001	2002	2003	2004	2005
[illegible]								
Revenues[1]	22,097	26,714	33,270	35,165	34,277	34,955	34,770	42,097
Revenue Growth Rate (Year over Year)	8.6%	20.9%	24.5%	5.7%	-2.5%	2.0%	-0.5%	21.1%
Gross Margin percentage	49.8%	47.9%	43.2%	44.3%	42.4%	41.8%	41.3%	43.0%
Operating Income[2]	6,207	7,090	8,060	8,905	7,628	6,802	7,488	9,699
% of revenue	28.1%	26.5%	24.2%	25.3%	22.3%	19.5%	21.5%	23.0%
Net Earnings[1]	4,040	4,508	4,122	4,372	4,939	4,836	4,921	6,008
Basic and Fully Diluted Earnings per Unit	$0.72	$0.80	$0.74	$0.78	$0.73	$0.67	$0.67	$0.79
Distributable Cash Flow[2]	5,725	5,895	5,383	5,685	6,800	6,176	6,085	7,456
Distributable Cash Flow per Unit[2]	$1.02	$1.05	$0.96	$1.01	$1.01	$0.85	$0.82	$0.98
Distributions Declared per Unit[1]	$1.02	$0.88	$1.05	$0.96	$1.01	$0.99	$0.88	$0.88
Return on Average Equity	7.9%	9.0%	8.4%	9.2%	9.3%	8.2%	8.4%	8.8%
Distributable Cash Flow Yield (on closing unit price)	11.3%	12.0%	11.0%	9.1%	10.1%	9.4%	8.7%	9.7%
Capex Spending:								
Sustaining Capital (excludes reserves)	228	276	540	419	462	263	201	462
% of revenue	1.0%	1.0%	1.6%	1.2%	1.3%	0.8%	0.6%	1.1%
Earnings enhancing	4,950	5,627	3,913	1,036	661	2,019	4,189	1,639
Subtotal	5,178	5,903	4,453	1,455	1,123	2,282	4,390	2,101
Seedling Containers	749	993	954	1,090	660	708	752	1,015
Total	5,927	6,896	5,407	2,545	1,783	2,990	5,142	3,116
Maintenance expenditures	1,636	1,865	2,082	2,489	2,475	2,506	2,089	2,523
Maintenance & Sustaining Capital expenditures as a percentage of revenue	8.4%	8.0%	7.9%	8.3%	8.6%	7.9%	6.6%	7.1%
Financial Position								
Working Capital (excluding current portion of term debt)	2,529	1,867	2,628	2,943	4,737	3,684	4,621	4,443
Interest Bearing Debt Position								
Operating	2,882	4,231	7,096	6,993	4,615	6,687	6,788	10,203
Term (including current portion)	4,968	8,070	11,838	11,502	—	1,763	8,601	7,826
Total	7,850	12,301	18,934	18,495	4,615	8,450	15,389	18,029
Term Debt to Equity	0.098	0.161	0.247	0.246	0.000	0.031	0.146	0.101
Total Assets	61,062	66,402	70,999	69,934	68,709	68,054	77,801	104,663
Market Capitalization (based on closing unit price)	50,901	49,487	49,487	62,778	72,630	65,301	71,460	96,833
Units Outstanding at End of Period	5,655,714	5,655,714	5,655,714	5,655,714	7,255,714	7,255,714	7,577,901	9,587,414
Unit Price Range High	$10.25	$9.90	$10.20	$11.45	$11.26	$10.30	$9.90	$11.57
Low	$8.00	$8.25	$7.00	$8.50	$9.51	$8.60	$8.73	$9.07
Close-December 31	$9.00	$8.75	$8.75	$11.10	$10.01	$9.00	$9.43	$10.10
Volume	834,339	874,126	877,194	1,276,590	2,086,315	1,017,827	2,683,489	2,919,041

Note 1. *This summarized financial data is presented in Canadian dollars, and has been prepared in accordance with Canadian generally accepted accounting principles. In 2002 the Fund adopted CICA Handbook section 3062 with regard to goodwill and intangibles. This change in policy was applied on a prospective basis.*

Note 2. *Distributable Cash Flow and Operating Income are terms which do not have standardized meaning under Canadian generally accepted accounting principles, and may not be comparable to similar measures provided by other reporting entities.*

Discussion:

Since 2002, PRT's operations have been adversely affected by difficult conditions in the forest industry, which impacted seedling pricing and volumes. In addition, since 2000, energy prices have risen substantially, resulting in increased costs of production over this period. In 2003, the Fund incurred foreign exchange losses on its US dollar seedling contracts, which impacted earnings for the period by $456,000. In 2002, the Fund retired its term debt from the proceeds of a $15 million equity offering, and in the process incurred a loss on cancellation of interest rate swaps of $472,000. In 2004 the Fund incurred site consolidation costs of $453,000 to close and relocate nursery sites, and in 2005 the Fund recorded a gain on sale of a closed nursery site of $548,000. Over the past three years, there have been no adjustments to earnings for discontinued operations or extraordinary items.

Summary of Quarterly Results

Figures below are presented in 000's, except for per Trust Unit figures.

	2004					2005				
	1st Q	2nd Q	3rd Q	4th Q	Total Year	1st Q	2nd Q	3rd Q	4th Q	Total Year
Operating Results										
Revenues	$ 7,193	$ 12,526	$ 6,458	$ 8,593	$ 34,770	$ 8,838	$ 13,738	$ 6,361	$ 13,160	$ 42,097
Net earnings	$ 833	$ 1,641	$ 828	$ 1,619	$ 4,921	$ 1,345	$ 2,741	$ 356	$ 1,566	$ 6,008
Per Unit[1]	$0.11	$0.23	$0.11	$0.22	$0.67	$0.18	$0.36	$0.05	$0.20	$0.79
Distributable cash	$ 1,153	$ 2,898	$ 336	$ 1,698	$ 6,085	$ 1,216	$ 3,718	$ 105	$ 2,417	$ 7,456
Per Unit	$0.16	$0.40	$0.05	$0.21	$0.82	$0.16	$0.49	$0.01	$0.32	$0.98
Distributions declared	$ 1,589	$ 1,589	$ 1,636	$ 1,702	$ 6,516	$ 1,660	$ 1,660	$ 1,661	$ 1,805	$ 6,786
Per Unit	$0.22	$0.22	$0.22	$0.22	$0.88	$0.22	$0.22	$0.22	$0.22	$0.88

Note 1: *Basic and Fully Diluted*
The above summarized financial data is presented in Canadian dollars, and has been prepared in accordance with Canadian generally accepted accounting principles, with the exception of distributable cash amounts. Distributable Cash Flow is a term which does not have standardized meaning under Canadian generally accepted accounting principles, and may not be comparable to similar measures provided by other reporting entities.

Discussion:

The Fund's operating results are seasonal, driven by the varying levels of activity required throughout the seedling growing cycle, as well as the seasonal nature of silviculture services. Revenues and cash flow are affected by PRT's seedling crop cycles and by the seasonality of PRT's customers' planting season. PRT recognizes revenue under contracts on a percentage completion basis with costs incurred as a base. Revenue from non-contracted goods and services is recognized when the goods are delivered or the service has been substantially rendered. As such, fluctuations between quarters occur depending upon the activities in the quarter. Comparatively high cost activities, such as harvesting, typically occur in the second and fourth quarters, and accordingly these quarters normally reflect a higher proportion of annual revenues. Operating results in the third quarter of 2005 were lower than the same period of 2004 due to revenue timing shifts to the second quarter. Operating results in the fourth quarter of 2005 were impacted by the acquisition of Pelton Reforestation Ltd. Distributions declared in the first quarter period may include a "top-up" distribution declared from available distributable cash flow of the prior year. No such distribution was made in either 2004 or 2005.

Risks and Risk Management

The Company's business involves the cultivation and growing of forest seedlings, an agricultural crop. As such, the business of PRT is subject to risks inherent in an agricultural business. To manage these risks, PRT grows its crop in diverse locations with the majority of the crop grown in climate-controlled greenhouses. Trained growing personnel monitor the growing conditions with the aid of computerized environmental control, alarm and other management systems. These systems are an integral part of the Company's formalized crop risk management plans, and the Company also maintains insurance over indoor crops against certain types of physical crop damage.

Some of PRT's costs are subject to variations caused by movements in commodity prices. For example, energy costs have shown increased volatility in recent years, which has and may continue to adversely impact PRT's operating margins. The Company typically prices its products under annual sales contracts, and so is generally not able to revise its sales prices in the short term to offset commodity price volatility. To reduce this risk, PRT purchases energy from a variety of regulated and non-regulated sources, which is expected to partially offset the effect of short-term changes in commodity prices. The Company also enters into forward purchase contracts for future energy requirements where management considers it advantageous to do so.

The Fund enters into seedling growing contracts in both Canadian and US dollars. Exchange rates have shown increased volatility in recent periods, which has and may continue to adversely impact PRT's revenue. As stated above, the Company typically prices its products under annual sales contracts, and so is generally not able to revise its sales prices in the short term to offset exchange rate volatility. To reduce this risk, PRT has established US based production facilities, and is financing the purchase of those facilities with US dollar denominated debt, in order to provide some offsetting exchange rate exposure against the US dollar revenue stream.

The business of PRT is highly dependent on the forest industry in Canada. While the Company is not materially dependent on any one customer, regional markets may be impacted by changes in global markets and government regulations and by more consolidated buying decisions by larger customers. Over the past five years, PRT has taken steps to diversify its operations across a wider variety of customers and Provincial/State jurisdictions, in order to mitigate such short term impacts.

The Company intends to use term debt financing to fund earnings-enhancing capital expenditures in the current low interest rate environment. Interest rate risk is managed by fixing term debt rates for varying terms using interest rate swaps. Working capital loans are short term in nature and represent a relatively small portion of the cost of total borrowings. Accordingly, PRT does not hedge interest rate risk on this debt.

The production of forest seedlings has limited impact on the environment. Seedlings are grown in controlled greenhouses or in defined open compounds. To manage any potential environmental risks, PRT has established an Environmental Management System (EMS). The EMS consists of an environmental policy, codes of conduct, periodic site audits, employee training and awareness, environmental monitoring, emergency prevention and response procedures, and periodic reporting.

Disclosure Controls & Procedures

Based on recent amendments to securities legislation in Canada, the President and Chief Executive Officer and the Vice-President Finance, and Chief Financial Officer of the Company are required to certify that they have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2005.

An evaluation was performed by the President and Chief Executive Officer and the Vice-President Finance and Chief Financial Officer, in consultation with other management of the Company, of the effectiveness of the Fund's disclosure controls and procedures as of December 31, 2005. Based on that evaluation, management concluded that the Fund's disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2005.

Outlook

The Fund has come though a challenging operating environment in the forest seedling nursery industry, and has completed a number of initiatives to improve and grow PRT's business. The results of these strategies are beginning to show, with improved revenues, earnings and cash flow. Although the long outstanding softwood lumber trade dispute is still unresolved, the rate of logging has remained high and silviculture programs are being addressed. In addition, a significant reforestation backlog exists in Western Canada due to forest fire and pest damage. We expect that these factors will help keep demand firm over the next few years.

During the recent industry cycle we responded to the issues that pressured PRT's operating margins, and implemented strategies to manage risks and reduce costs over the long term. These included nursery consolidations, investments to improve production efficiencies, and energy conservation and buying strategies, among others.

Through this period we remained firmly focused on our growth strategies. These include industry consolidation, and we have completed three accretive acquisitions over the past two years. We also increased our customer focus, and are pleased with the market share gains we are achieving as a result.

Our 2006 marketing results to date are encouraging, and we expect that inclusive of the Pelton acquisition we will grow over 220 million seedlings. This positions us well for continued revenue and cash flow growth in 2006.

As always, we are continually looking to the long-term for opportunities to further improve and expand our operations, and to leverage our knowledge base and infrastructure, while maintaining a market leading position in our industry.

February 28, 2006

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of PRT Forest Regeneration Income Fund ("the Fund") and all the information in this report pertaining to the Fund have been prepared by PRT Management Inc. ("PRT Management") and management of Pacific Regeneration Technologies Inc. ("PRT") and have been approved by the Board of Trustees of the Fund.

The consolidated financial statements have been prepared by PRT Management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. PRT Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. PRT Management has prepared the financial information of the Fund presented elsewhere in the annual report and has ensured that it is consistent with the consolidated financial statements of the Fund.

PRT Management maintains, on behalf of the Fund, systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded. The Trustees of the Fund are responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements of the Fund. The Trustees carry out this responsibility through the Fund's Audit Committee.

The Audit Committee is comprised of three Trustees, all of whom are independent and unrelated to the Fund. The Committee meets periodically with PRT Management and management of PRT as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and the external auditors' report. The Committee also considers, for approval by the Unitholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements of the Fund have been audited by PricewaterhouseCoopers, the external auditors, in accordance with generally accepted auditing standards on behalf of the Unitholders. PricewaterhouseCoopers has full and free access to the Audit Committee.

On behalf of the Trustees and Management

Colin A.C. Dobell
Trustee and Chairman

John Kitchen
President & CEO
Pacific Regeneration Technologies Inc.

Robert A. Miller
Vice President Finance
& Administration & CFO
Pacific Regeneration Technologies Inc.

To the Unitholders of PRT Forest Regeneration Income Fund

We have audited the consolidated balance sheets of PRT Forest Regeneration Income Fund (the "Fund") as at December 31, 2005 and 2004 and the consolidated statements of earnings and cumulative earnings and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
February 17, 2006

Consolidated Balance Sheets

As at December 31, 2005 and 2004

	2005	2004
Assets		
Current assets		
Cash	$ 697,360	$ 599,902
Accounts receivable	10,261,147	8,734,992
Income taxes recoverable	114,630	—
Inventories	2,096,917	1,221,744
Prepaid expenses and term deposit	733,056	499,135
Property held for sale (note 5)	—	1,999,320
Unbilled revenue	5,823,862	1,695,452
	19,726,972	14,750,545
Investment (note 6)	528,899	654,570
Property, plant and equipment (note 7)	50,600,877	33,961,914
Intangibles (notes 4 and 8)	1,430,646	220,000
Goodwill (note 4)	32,375,329	28,213,816
	$ 104,662,723	$ 77,800,845
Liabilities		
Current liabilities		
Operating line (note 9)	$ 10,202,502	$ 6,787,912
Accounts payable and accrued liabilities	4,249,066	2,106,720
Distribution payable to Unitholders (note 12)	697,283	596,305
Vendor financing (note 4(b))	134,974	637,795
Current portion of long-term debt (note 10)	856,983	865,328
	16,140,808	10,994,060
Long-term debt (note 10)	6,969,346	7,736,039
Future income taxes (note 13)	4,245,900	18,550
	27,356,054	18,748,649
Unitholders' Equity		
Capital contributions (note 11)	90,090,529	71,058,379
Cumulative net earnings	39,164,538	33,156,108
Cumulative distributions declared (note 12)	(51,948,398)	(45,162,291)
	77,306,669	59,052,196
	$ 104,662,723	$ 77,800,845

Approved by the Trustees

Colin A.C. Dobell
Trustee

Allan D. Laird
Trustee

See accompanying notes to these financial statements.

Consolidated Statements of Earnings and Cumulative Earnings

For the years ended December 31, 2005 and 2004

	2005	2004
Revenue	$ 42,096,852	$ 34,769,654
Expenses		
Costs of production	23,984,385	20,397,424
Selling, general and administration (note 16(b))	8,344,124	7,259,611
Foreign exchange loss (gain)	68,894	(375,279)
	32,397,403	27,281,756
Earnings before the following	9,699,449	7,487,898
Interest expense	(1,206,703)	(685,994)
Depreciation and amortization	(3,182,196)	(2,620,351)
Site consolidation charges (note 5)	—	(453,234)
Equity in loss of investee	(125,671)	(59,347)
Gain on sale of property, plant and equipment	573,011	311
Earnings before income taxes	5,757,890	3,669,283
Recovery of income taxes (note 13)	250,540	1,252,096
Net earnings for the year	6,008,430	4,921,379
Cumulative earnings – Beginning of year	33,156,108	28,234,729
Cumulative earnings – End of year	$ 39,164,538	$ 33,156,108
Basic and diluted earnings per Trust Unit	$ 0.79	$ 0.67
Weighted average number of Trust Units outstanding	7,637,534	7,388,485

See accompanying notes to these financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2005 and 2004

		2005		2004
Cash flows from operating activities				
Net earnings for the year	$	6,008,430	$	4,921,379
Items not affecting cash				
Depreciation and amortization		4,341,339		3,501,607
Recovery of income taxes		(247,126)		(1,276,225)
Gain on sale of property, plant and equipment		(573,011)		(311)
Equity in loss of investee		125,671		59,347
Unrealized gain on foreign exchange		(42,554)		(279,206)
		9,612,749		6,926,591
Net change in non-cash working capital items		(3,583,058)		834,524
		6,029,691		7,761,115
Cash flows from financing activities				
Distributions paid to Unitholders		(6,685,129)		(6,502,336)
Proceeds of long-term debt		23,586,032		7,012,980
Repayment of long-term debt		(24,177,019)		(212,385)
Repayment of vendor's holdback		(637,795)		—
Increase in operating line		2,699,590		101,159
Issuance of Trust Units		19,032,150		43,836
		13,817,829		443,254
Cash flows from investing activities				
Acquisitions (note 4)		(19,233,384)		(3,009,754)
Purchase of property, plant and equipment		(3,115,648)		(5,141,988)
Proceeds on sale of property, plant and equipment		2,598,970		8,128
		(19,750,062)		(8,143,614)
Increase in cash		97,458		60,755
Cash – Beginning of year		599,902		539,147
Cash – End of year	$	697,360	$	599,902

Supplemental cash flow information (note 14)

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

1 Organization and nature of operations

PRT Forest Regeneration Income Fund (the "Fund") is an open-ended single purpose trust, created under the laws of British Columbia by a Declaration of Trust dated May 14, 1997. The Fund is the largest producer of container-grown forest seedlings in North America. The Fund grows its seedlings at nurseries in British Columbia, Alberta, Saskatchewan, Ontario, Oregon and Nevada.

2 Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Principles of consolidation

These consolidated financial statements include the accounts of the Fund, its wholly owned subsidiary Pacific Regeneration Technologies Inc. ("PRT") and PRT's wholly owned subsidiary companies. Inter-group transactions are eliminated on consolidation.

Revenue recognition

Revenue from contracts is recognized as a percentage of the contract price, based on the percentage of total direct expenses incurred to total budgeted direct costs. Total revenue is recognized when seedling crops reach substantial completion, which is defined as meeting all contracted growth specifications. Any excess of revenues recorded using this percentage of completion method over amounts billed is recorded as unbilled revenue.

Revenue from non-contracted goods and services is recognized when the goods are delivered or the service has been substantially rendered.

Inventories

Inventories of supplies are recorded at the lower of cost and replacement cost, with cost being determined on a weighted average basis.

Future income taxes

The Fund accounts for income taxes using the liability method of tax allocation. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in income in the period that includes the enactment date. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Investments

The Fund accounts for investments in which it exercises significant influence using the equity method. Under the equity method, the initial investment is recorded at cost and the Fund's pro rata share of the investments' earnings or losses is included in its results of operations.

Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method at rates which reflect the estimated useful lives of the assets as follows:

Buildings	40 years
Greenhouses	25 years
Equipment	3 – 15 years
Seedling containers	5 years

Depreciation related to the seedling containers is included in costs of production in the consolidated statements of earnings and cumulative earnings.

Goodwill

Goodwill is recorded at cost and is not amortized. The Fund tests goodwill annually for impairment, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Any excess of carrying value over fair value will be charged to income in the period in which the impairment is determined.

Intangibles and amortization

Intangibles represent customer lists, leases and non-competition agreements recorded on acquisition of subsidiaries. The intangibles are being amortized over their estimated useful life of five to fifteen years.

Foreign exchange

Foreign currency transactions are translated into Canadian dollars at the exchange rates in effect at the dates of the transactions. Account balances denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet dates. Exchange gains and losses arising from the translation or settlement of foreign currency denominated monetary items are included in the determination of net earnings.

The accounts of the Fund's United States operations are considered to be integrated and are translated into Canadian dollars using the temporal method. Exchange gains and losses arising from the translation of the Fund's foreign operations are included in the determination of net earnings.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from those estimates.

The most significant estimates are related to future income taxes, asset retirement obligations, asset impairment and expected useful life for depreciation and amortization.

Asset retirement obligations

Effective January 1, 2004, PRT adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) for asset retirement obligations, which require that such obligations be measured at fair value. PRT has certain leased nursery sites that require that the sites be returned to their original state at the request of the lessor. As a result of adopting these new recommendations, management assessed that the asset retirement obligation is $nil.

Impairment of long-lived assets

Effective January 1, 2004, PRT adopted the new recommendations of the CICA for impairment of long-lived assets, which provide guidance for the recognition, measurement and disclosure of impairment of long-lived assets. As a result of adopting these new recommendations, management assessed that the impairment of long-lived assets is $nil.

Hedging relationships

On January 1, 2004, PRT adopted the amendments made to the CICA's Accounting Guideline 13 (AcG-13) "Hedging Relationships". PRT uses interest rate swaps to manage interest rate risk and uses forward foreign exchange contracts to manage foreign exchange rate risk. Derivative instruments that do not qualify as a hedge under AcG-13, or are not designated as a hedge, are recorded in the consolidated balance sheets as either an asset or liability with changes in fair value recognized in net earnings. PRT elected not to designate any of its risk management activities in place at December 31, 2005 as accounting hedges under AcG-13 and, accordingly, accounted for all these non-hedging derivatives using the mark-to-market accounting method. As a result of adopting these new recommendations, PRT has determined that there is no impact to the financial statements.

3 Changes in accounting policies

Effective January 1, 2005, the Fund adopted the CICA's Accounting Guideline AcG-15, Consolidation of Variable Interest Entities, Application of this guideline has required consolidation of PRT Management Inc. ("PRT Management") with the Fund's financial statements in 2005. Adoption of this policy had no significant impact on reported results for the current period.

4 Acquisitions

a) On June 1, 2005 PRT acquired 100% of the shares of Coldstream Nursery Ltd. The combined net assets acquired at fair market value are as follows:

Cash	$	41,049
Non-cash net working capital		132,235
Property, plant and equipment		760,574
Intangibles		416,000
Goodwill		409,423
Future income taxes		(173,552)
Total consideration		1,585,729
Cash consideration paid		1,450,755
Cash consideration to be paid in 2006		134,974
		1,585,729

This acquisition was accounted for using the purchase method and accordingly, the consolidated financial statements include the results of operations from the date of acquisition. Intangibles include customer lists and leases and are amortized over 5 and 15 years respectively.

This acquisition was financed through a combination of term debt, cash, and vendor financing.

b) On October 1, 2005 PRT acquired 100% of the shares of Pelton Reforestation Ltd. The combined net assets acquired at fair market value are as follows:

Cash	$	1,512,713
Non-cash net working capital		1,187,190
Property, plant and equipment		17,011,165
Intangibles		914,200
Goodwill		3,752,090
Future income taxes		(4,300,924)
Bank indebtedness		(715,000)
Long-term debt		(25,045)
Total consideration		19,336,389
Cash consideration paid		18,574,165
Post acquisition closing and restructuring costs		762,224
		19,336,389

This acquisition was accounted for using the purchase method and accordingly, the consolidated financial statements include the results of operations from the date of acquisition. Intangibles include customer lists and non-competition agreements, and are being amortized over periods ranging from 5 to 10 years.

This acquisition was financed through a combination of term debt, operating line drawings, and assumption of accounts payable. The term debt was subsequently retired from the proceeds of a Trust Unit offering (see note 11).

c) Asset purchase – On January 8, 2004, PRT, through a wholly-owned subsidiary, purchased the assets of a nursery site near Portland, Oregon for US$2,300,000. The purchase was financed through the use of PRT's term debt facility and vendor financing in the amount of US$300,000.

d) Share purchase – On July 30, 2004, PRT acquired 100% of the shares of H.N. Hybrid Nurseries Ltd. The net assets acquired at fair market value are as follows:

Cash	$	135,251
Current assets		661,367
Property, plant and equipment		5,433,813
Intangibles		220,000
Goodwill		1,726,657
Current liabilities		(152,593)
Future income taxes		(1,241,695)
Total consideration		6,782,800
Cash consideration paid		3,145,005
Trust units issued		3,000,000
Cash consideration to be paid in 2005		637,795
		6,782,800

This acquisition was accounted for using the purchase method and accordingly, the consolidated financial statements include the results of operations from the date of acquisition.

The acquisition was financed through a combination of term debt, cash, vendor financing and issuance of Trust Units.

The number of Trust Units issued was 317,595 at a value of $9.45 each, being the weighted average trading price of units for the ten trading days preceding the close of the transaction.

Intangibles represent a customer list with an estimated life of 5 years.

5 Restructuring activities

In 2004, PRT closed its Cochrane, ON nursery site and relocated this capacity to existing sites in Kirkland Lake and Dryden, ON. In addition, significant capacity of PRT's Beaverlodge, AB, nursery was moved to the Armstrong, BC location. The restructuring was completed in 2005.

The former Cochrane nursery site has been listed for sale.

Notes to Consolidated Financial Statements *(continued)*

In the first quarter of 2004, PRT announced that it would close its Aldergrove, BC nursery site and relocate the majority of this capacity to a newly acquired site near Portland, Oregon and the remaining capacity to other BC based facilities. The closure was completed in 2004.

PRT sold the Aldergrove site effective February 28, 2005. Net sale proceeds were $2.5 million, of which $500,000 was received as a deposit in 2004. PRT recorded a gain on the sale of $547,697 in 2005.

The expenditures related to these completed site consolidations, including certain one-time costs, are as follows:

	Amounts incurred in the year	Total amounts incurred
Property, plant and equipment		
Site preparation and greenhouse construction at Kirkland Lake and Dryden	$ 85,667	$ 880,907
Site consolidation charges		
Dismantling and relocation of equipment and facilities	—	487,931
Depreciation		
Write-down of deferred costs and capital assets related to Cochrane site	101,531	311,531
	187,198	1,680,369

The above table excludes capital costs associated with the purchase and development of the Fund's new nursery near Portland, Oregon (note 4(c)) but includes the cost of relocating equipment and other assets to the site.

Costs to dismantle and ship equipment are recognized when the activities take place and the costs are incurred and are included in the consolidated statements of earnings and cumulative earnings as site consolidation charges.

6 Investment

On January 2, 2003, PRT acquired a non-controlling interest in a privately held company for cash consideration of $742,000. The investment is accounted for by the equity method. The excess of the purchase price of the investment over the underlying book value at the date of acquisition, totalling $625,000, has been allocated to intangible assets, which are being amortized over their estimated useful lives. The company is a supplier of software solutions for seedling supply management by forest companies.

7 Property, plant and equipment

2005	Cost	Accumulated depreciation	Net
Land	$ 3,377,591	$ —	$ 3,377,591
Buildings	8,698,892	1,029,342	7,669,550
Greenhouses	30,887,797	6,673,439	24,214,358
Equipment	20,836,561	8,839,186	11,997,375
Seedling containers	9,533,691	6,191,688	3,342,003
	73,334,532	22,733,655	50,600,877

2004	Cost	Accumulated depreciation	Net
Land	$ 3,372,591	$ —	$ 3,372,591
Buildings	6,392,788	816,215	5,576,573
Greenhouses	21,511,225	5,563,874	15,947,351
Equipment	14,853,936	7,564,343	7,289,593
Seedling containers	6,808,344	5,032,538	1,775,806
	52,938,884	18,976,970	33,961,914

The following summarizes the amounts charged to earnings in respect of depreciation:

	2005	2004
Seedling container depreciation included in costs of production	$ 1,159,139	$ 881,256
Other depreciation	3,062,646	2,620,351
Total depreciation	4,221,785	3,501,607

8 Intangibles

			2005
	Cost	Accumulated amortization	Net
Customer lists	$ 970,000	$ 97,500	$ 872,500
Non-compete agreements	404,200	15,210	388,990
Lease	176,000	6,844	169,156
	1,550,200	119,554	1,430,646

			2004
	Cost	Accumulated amortization	Net
Customer lists	$ 220,000	$ —	$ 220,000
Non-compete agreements	—	—	—
Lease	—	—	—
	220,000	—	220,000

Amortization expense for the year was $119,554.

9 Operating line

PRT has a demand revolving operating facility of up to $13.0 million to fund the company's working capital and general corporate requirements and to provide temporary financing for earnings-enhancing capital expenditures prior to conversion to term debt (note 10). The amount of operating line available is dependent upon meeting certain margin requirements. As at December 31, 2005, the full amount of the facility was available and the company had drawn $10,202,502 (2004 - $6,787,912) of net cash advances from the operating facility bearing interest at prime plus 1/4%. A first fixed and floating charge over PRT's assets is provided as security.

10 Long-term debt

PRT has a term debt facility available in the amount of $30 million (2004 - $20 million), or the equivalent in U.S. dollars, to fund earnings-enhancing capital expenditures and acquisitions. All loans are based on a 10-year amortization period, repayable within five years of initial payment. A wholly owned subsidiary of PRT has a term debt facility available in the amount of US$2,160,000 (2004 – US$2,365,000) which is amortized on a straight-line basis over 10 years.

As at December 31, the following amounts have been drawn under the facilities:

	2005	2004
Term loan, bearing interest at 4.27%, maturing on September 30, 2008, with quarterly payments calculated on a straight-line basis over 10 years	$ 1,275,000	$ 1,425,000
Term loan, bearing interest at 4.69%, maturing on September 30, 2009, with quarterly payments calculated on a straight-line basis over 10 years	525,000	585,000
Term loan, bearing interest at the lender's U.S. prime plus 1.25%, maturing on October 31, 2013 (US$282,875), with quarterly payments calculated on a straight-line basis over 10 years	328,135	197,250
Term loan, bearing interest at 6.6%, maturing October 1, 2009 (US$734,871) with blended monthly principal and interest payments based on a 10 year amortization period	852,450	3,309,600
Term loan, bearing interest at the lender's prime rate plus .50%, maturing September 30, 2009, with quarterly payments calculated on a straight-line basis over 10 years, repaid in full in 2005	—	2,724,517
Term loan, bearing interest at 6.05%, maturing October 1, 2010, with monthly payments calculated on a straight-line basis over 10 years	1,170,050	—
Term loan, bearing interest at 6.07%, maturing October 3, 2011, with monthly payments calculated on a straight-line basis over 10 years	1,150,000	—
Term loan, bearing interest at 6.44%, maturing on April 29, 2010 (US$1,877,323), with blended monthly principal and interest payments based on a 10 year period	2,177,694	—
Payable to vendors (US$300,000) (note 4(c))	348,000	360,000
	7,826,329	8,601,367
Less: Current portion	856,983	865,328
	6,969,346	7,736,039
Interest paid on long-term debt	682,058	395,512

PRT is subject to interest rate risk on floating rate payments under its long-term debt. PRT manages this exposure by entering into interest rate swap agreements. Payments and receipts under interest rate swaps are recognized as adjustments to interest expense in a manner that matches them to interest payments under floating rate financial liabilities.

As at December 31, 2005, PRT had entered into five interest rate swap agreements for 5 years to fix the interest rates on its Canadian dollar term loans. The rates noted in the above table represent the fixed interest rates, including stamping fees, resulting from the swap agreements.

A first fixed and floating charge over PRT's assets is provided as security for the facilities.

The principal repayments required on the long-term debt are as follows:

Year ending December 31		
2006	$	856,983
2007		969,754
2008		1,631,848
2009		1,464,049
2010		2,092,261
Thereafter		811,434
		7,826,329

11 Unitholders' equity

The Declaration of Trust provides that an unlimited number of Trust Units may be created and issued. Each Trust Unit represents an equal undivided beneficial interest in the assets of the Fund. All Trust Units of the Fund are of the same class with equal rights and privileges. Each Trust Unit is transferable and entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of Unitholders. Unitholders are not subject to future calls or assessments.

Trust Units are redeemable at the holder's option at amounts related to market prices at the time, subject to a maximum of $75,000 in cash redemptions by the Fund in any particular month. This limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of a pro rata number of PRT common shares and notes.

Units outstanding as at December 31 are:

	Number of units	2005 Amount	Number of units	2004 Amount
Balance - Beginning of year	7,577,901	71,058,379	7,255,714	68,014,543
Units issued for acquisition (note 4(d))	—	—	317,595	3,000,000
Units issued for cash	2,000,000	18,935,000	—	—
Units issued under ESOP program	9,513	97,150	4,592	43,836
Balance - End of year	9,587,414	90,090,529	7,577,901	71,058,379

On December 22, 2005, the Fund completed the issue of 2,000,000 Trust Units of the Fund at $10.15 per Trust Unit for net proceeds of $18,935,000, after deducting expenses of the issue in the amount of $1,365,000. The Fund used the proceeds to retire existing indebtedness previously incurred to finance acquisitions and expansions and to provide working capital for general corporate purposes.

The Fund has a Unit option plan whereby the Trustees of the Fund may from time to time grant options to purchase Units to eligible officers, employees and consultants of the Fund or any subsidiary and to directors of any subsidiary. The aggregate number of Units reserved under the plan is 560,572. The maximum term of any option is 10 years. The exercise price of an option cannot be less than the average of the Unit price at the close of business on the five trading days preceding the grant date.

As at December 31, 2005, no options had been granted (2004 - nil).

During the year ended December 31, 2003, PRT established an Employee Stock Ownership Plan ("ESOP") whereby eligible directors and employees of PRT, PRT Management Inc. ("PRT Management"), or any subsidiary of PRT can purchase market traded Units of the Fund through payroll deduction. The plan was amended in 2004 to permit treasury issuances on the same terms. Under the terms of the ESOP, eligible employees can contribute between 1% and 10% of their earnings to the plan and PRT or PRT Management will contribute 15% of the employee contribution toward the purchase price of Units and pay all transaction fees on Unit purchases made under the plan.

12 Distributions to Unitholders

The Fund's policy is to make a cash distribution each month equal to interest charged to PRT by the Fund on the $72.9 million (2004 - $57.7 million) of inter-group 12% unsecured subordinated notes (the "Notes") plus interest charged on any other inter-group indebtedness less estimated Fund administration costs. In addition to the monthly distributions, an additional distribution (the "Thirteenth Distribution") may be made on or before March 31 of the following year based on the actual available cash for the year, less reserves, if any, as considered appropriate by the Board of Directors of PRT and the Trustees of the Fund.

During the year ended December 31, 2005, the Fund declared distributions to the Unitholders of $6,786,107 or $0.876 per Unit (2004 - $6,516,395 or $0.882 per Unit) based on the number of Units outstanding on the record date. Distributions are declared on the last business day of each month and paid the following month. The distribution amounts declared by month were:

	2005 Amount	2005 Per Unit	2004 Amount	2004 Per Unit
February – Thirteenth Distribution on account of prior year	—	—	—	—
January	553,256	0.073	529,667	0.073
February	553,300	0.073	529,667	0.073
March	553,351	0.073	529,667	0.073
April	553,406	0.073	529,667	0.073
May	553,460	0.073	529,667	0.073
June	553,516	0.073	529,712	0.073
July	553,571	0.073	529,757	0.073
August	553,654	0.073	553,007	0.073
September	553,713	0.073	553,050	0.073
October	553,772	0.073	553,092	0.073
November	553,825	0.073	553,137	0.073
December	697,283	0.073	596,305	0.079
	6,786,107	0.876	6,516,395	0.882

The costs of issuing Trust Units are deductible for income tax purposes on a straight-line basis over a five-year period. The Fund incurred issue costs in 1997 of $3,002,597, $1,540,000 in 2002 and additional issue costs of $1,365,000 in 2005. The Fund can designate these deductions as a non-taxable distribution of amounts to Unitholders. The distributions declared have been allocated as follows for income tax purposes:

	2005	2004
Taxable - interest	$ 6,473,101	$ 6,208,411
Non-taxable	313,006	307,984
Total distribution	6,786,107	6,516,395
Per Unit	0.876	0.882

As at December 31, 2005, $1,668,055 (2004 - $616,062) of issue costs were available for future designation as non-taxable distributions.

13 Income taxes

The Fund is not taxable on any income that is distributed to Unitholders. PRT is taxable on its income at Canadian statutory tax rates.

a) The consolidated income tax recovery (provision) comprises the following:

	2005	2004
Current income taxes	$ 3,415	$ (24,129)
Future income taxes	247,125	1,276,225
	250,540	1,252,096

b) The recovery of income taxes shown in the consolidated statements of earnings and cumulative earnings and Unitholders' equity differs from the amounts obtained by applying statutory tax rates to the earnings before income taxes for the following reasons:

	2005	2004
Income tax expense computed at statutory rates	$ (2,007,776)	$ (1,316,178)
Income tax benefit of fund distributions deductible for tax purposes	2,331,104	2,408,655
Reduction in income tax rate	1,964	267,404
Large corporations tax	32,835	(24,129)
Other	(107,587)	(83,656)
Recovery of income taxes	250,540	1,252,096

c) The net future income tax liability comprises the following differences between book value and tax value at current tax rates:

		2005		2004
Future income tax assets (liabilities)				
Property, plant and equipment	$	(4,409,829)	$	121,921
Deductible expenses for tax purposes		(901,419)		(220,107)
Tax loss carry-forwards		1,065,348		79,636
Future income tax liability – net		(4,245,900)		(18,550)

d) Expiry of non-capital loss carry-forwards in subsidiary companies is as follows:

Year ending December 31		
2006	$	93,380
2007		22,639
2008		105,992
2009		—
2010		—
2011		1,827,401
2012		939,437
		2,988,849

14 Supplemental cash flow information

		2005		2004
Interest paid	$	1,209,652	$	680,271
Income taxes (recovered) paid		(3,415)		24,129
Non-cash financing				
Issuance of units		—		3,000,000
Vendor financing		134,974		997,795
Non-cash investing				
Acquisition		(134,974)		(3,637,795)
Purchase of property, plant and equipment		—		(360,000)

15 Segmented information – geographic areas

The Fund has one operating segment, being the production of forest seedlings.

The following tables provide geographic revenue, property, plant and equipment, and goodwill information:

2005		Revenue		Property, plant & equipment		Goodwill
Canada	$	36,529,971	$	45,519,840	$	32,375,329
United States		5,566,881		5,081,037		—
		42,096,852		50,600,877		32,375,329

2004		Revenue		Property, plant & equipment		Goodwill
Canada	$	30,764,292	$	29,349,689	$	28,213,816
United States		4,005,362		4,612,225		—
		34,769,654		33,961,914		28,213,816

16 Administration and management agreements

a) Administration Agreement

The Fund has entered into an Administration Agreement with PRT Management, a company owned by certain employees and former owners of PRT. According to the agreement, PRT Management will provide or arrange for the provision of administration services to the Fund. PRT Management is entitled to reimbursement of out-of-pocket expenses for providing these services but will not earn a fee. The agreement has a 20-year term and can be terminated by the Fund in certain circumstances.

b) Management Agreement

PRT has entered into a Management Agreement with PRT Management. According to the agreement, PRT Management will provide management and administration services and strategic advice to PRT as well as provide individuals to serve in executive positions. The initial term of the agreement is 20 years, and it is renewable thereafter for successive five-year terms unless PRT gives notice of non-renewal at least 12 months before the end of the relevant term. The Management Agreement may be terminated by PRT or PRT Management in certain circumstances. In 2005, PRT Management earned a fee of $1,337,276 (2004 - $1,153,307). The fee is periodically set at a level necessary to achieve reimbursement, without profit, of PRT Management's internal costs and expenses for providing these services, including salaries and wages. In addition, as an incentive to PRT Management to enhance cash distributions to Unitholders of the Fund, PRT Management is entitled to earn incentive fees which will be payable annually when the per Unit cash distributions to Unitholders generated from the operations of PRT exceed certain defined levels.

No incentive fees were earned by PRT Management in 2005 and 2004.

17 Commitments

PRT has operating lease commitments for facilities. Future minimum payments are as follows:

Year ending December 31		
2006	$	786,953
2007		751,776
2008		751,776
2009		748,953
2010		721,854
Thereafter		3,175,730
		6,937,042

18 Financial instruments

Fair value

The fair values of cash, accounts receivable, operating line, accounts payable and accrued liabilities and distribution payable to Unitholders approximate their carrying values given the short-term maturity of these instruments.

The fair value of the long-term debt approximates its carrying amount based on reference to current market prices for debt with similar terms and risks.

The fair value of the interest rate swaps approximate their carrying amount based on reference to current market interest rates.

Credit risk

A substantial portion of PRT's accounts receivable is with customers in the forestry industry and is subject to normal industry credit risks.

19 Significant customers

No customers account for more than 10% of the Fund's revenues.

Company Information

Directors

Colin A.C. Dobell, Chairman
President, C. Dobell Inc.
Financial Consulting Firm

Christopher J. Worthy, Vice Chairman
President, Worthy Capital Ltd.
Private Investment Management Firm

John Kitchen
President and CEO

Allan D. Laird
President, A.D. Laird Consulting Ltd.
Management Consulting Firm

George C. Stevens, Q.C.
Associate Counsel,
Lang Michener LLP, Barristers & Solicitors
Law Firm

Officers

John Kitchen
President and CEO

Robert A. Miller, CA
Vice President Finance and Administration,
CFO and Secretary

Herb Markgraf
Vice President, Business Development

Robert Maxwell
Vice President, Production

Fund Information

Trustees

Colin A.C. Dobell, Chairman
President, C. Dobell Inc.
Financial Consulting Firm

Allan D. Laird
President, A.D. Laird Consulting Ltd.
Management Consulting Firm

George C. Stevens, Q.C.
Associate Counsel
Lang Michener LLP, Barristers & Solictors
Law Firm

Annual Meeting

The annual meeting of Unitholders will
be held at 11:00 a.m., May 11, 2006
at the offices of Davis & Company, 2800 Park Place,
666 Burrard Street, Vancouver, British Columbia

Investor Relations Contact

Robert A. Miller
Tel: 1.866.553.TREE (8733) Ext. 227
Fax: 250.381.0252
Email: investor_relations@prtgroup.com

Head Office

#4 – 1028 Fort Street
Victoria, British Columbia
Canada V8V 3K4
Tel: 250.381.1404
Fax: 250.381.0252

Auditors

PricewaterhouseCoopersLLP

Registrar and Transfer Agent

Computershare Investor Services
Vancouver, Calgary, Toronto and Montreal

Stock Exchange Listing

Toronto Stock Exchange

Trading Symbol

PRT.UN

Web Site

www.prtgroup.com

Directors and Officers

Standing from left to right: **George C. Stevens, Robert Maxwell, Robert A. Miller, Allan D. Laird**
Sitting from left to right: **Christopher J. Worthy, John Kitchen, Colin A. C. Dobell, Herb Markgraf**

Altogether a better approach™

PRT Forest Regeneration Income Fund

CORPORATE OFFICE
#4 – 1028 Fort Street
Victoria, British Columbia
Canada V8V 3K4

Tel: 250.381.1404
Fax: 250.381.0252
www.prtgroup.com